MINUTES

BOARD OF TRUSTEES OF THE
PUBLIC EMPLOYEES' RETIREMENT FUND
143 West Market Street, Suite 500
Indianapolis, IN 46204

July 12, 2002

<u>Trustees Present</u>

Jonathan Birge, Chair
Richard Doermer, Vice Chair
Steven Miller
Nancy Turner

<u>Trustees Absent</u>

Theresa Ghilarducci

<u>Others Present</u>

Mike Gery, Executive Assistant to the Governor
Stephanie Rhinesmith, Public Finance Office
Richard Boggs, Burnley Associates (by phone)
Stephanie Braming, William M. Mercer Investment Consulting
Mary Beth Braitman, Ice Miller
Eric Swank, Ice Miller
Douglas Todd, McCready & Keene, Inc.
Karen Franklin, National City Bank
E. William Butler, PERF Executive Director
Caroline Drum Bradley, PERF Internal Auditor
Diann Clift, PERF MIS Director
Joseph Duncan, PERF Investment Analyst
Patricia Gerrick, PERF Chief Investment Officer
Ed Gohmann, PERF Legal Counsel
Patrick Lane, PERF Communications Director
Doug Mills, PERF Chief Financial Officer
Natalia Olenine, PERF Investment Intern
Kevin Scott, PERF Chief Benefits Officer
Joe Shelton, PERF Legal Intern
Lynda Duncan, Minute Writer

ITEMS MAILED TO THE BOARD PRIOR TO MEETING

A. Agenda of July 12, 2002 Meeting

B. Minutes:
- June 14, 2002 Board of Trustees Meeting
- May 10, 2002 Investment Committee Meeting
- May 8, 2002, May 31, 2002 , and June 14, 2002 Audit and Budget Committee Meetings

C. Reports, Summaries, Memorandums and/or Letters Concerning:
- Annuity Savings Account Analysis
- Adoption of Rules
- Line-of-Duty Death Determination Documentation (Board members only)
- Member Service Reporting
- Alternative Investments
- Mercer Custody Service and Fee Benchmark

A quorum being present, the meeting was called to order.

1. MINUTES APPROVAL

MOTION duly made and carried to approve the Minutes of the June 14, 2002 meeting of the Board of Trustees, subject to the inclusion of budget related material presented at that meeting.

Proposed by: *Nancy Turner*
Seconded by: *Steven Miller*
Votes: *4 for, 0 against, 0 abstentions*

2. DISCLOSURES

Mr. Doermer – Bank One stock ownership.

3. EXECUTIVE DIRECTOR'S REPORT.

a. Staffing Update. This report will be presented at the next Board meeting.

b. Pension Relief Update. PERF is required by statute to make this distribution to cities and towns each year to help them to off-set their local plan expenses for police officers and firefighters of the following plans:

- 1925 police plan
- 1937 firefighters plan
- 1953 Indianapolis police plan

Pension relief checks are sent to the local cities and towns twice a year (July and November). The amount to be distributed in the current year is $95,589,969.29 (paid in two installments). This amount is the actuarially determined distribution for pension relief for this year.

c. <u>Cost-of-Living Allowance (COLA) Update.</u> Mr. Butler noted that in the closing days of the special legislative session, the COLA had been reinstated for PERF and the Teachers' Retirement Fund (TRF). This would be effective from January 1, 2003. It is tied to the federal Social Security COLA, with a maximum of 2% and would apply to those members that had retired by January 1, 2002.

d. <u>Annuity Savings Account (ASA) Analysis.</u> Mr. Mills had prepared a spreadsheet to indicate the status of the ASA in terms of allocations and returns for the overall account. Mr. Butler noted that Ms. Ghilarducci had tasked the Executive Staff to provide an analysis of certain aspects of the ASA account. Currently, there is $1.8 million on the ASA account, 82% of which is in the Guaranteed Fund (over $1.5 million). The spreadsheets included quarterly trends. It was noted that information on the new PERF rates for the guaranteed fund would be published in the quarterly statement. The rate will be 8.25% for the first quarter of FY03 and then would be reduced to 7.75% for the remaining three-quarters of the fiscal year. The issue of yield versus rate would be addressed by PERF in January 2003. Mr. Mills noted that members had started moving their funds into the newly established international fund. A copy of these figures would be provided to RIPEA.

4. <u>LEGAL ISSUES.</u> Copies of the proposed administrative rule changes were provided. They contained the Internal Revenue Code requirements that relate to annual compensation limits and rollover requirements, as those Internal Revenue Code requirements apply to PERF and PERF-administered plans. The federal Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) amended certain of these Code requirements. In addition, SEA 59 takes advantage of additional portability options made possible under EGTRRA, which require confirming administrative code changes. Board action was required in order to initiate the rule-making process to amend the existing administrative code provisions to be consistent with the revised Code requirements, and to add provisions relating to additional sources for rollovers into PERF administered plans. Mr. Gohmann noted that this represented another step in an on-going rules adoption process. The sequence involved preliminary adoption, publication, PERF staff hearing based on any comments received, and then presentation to the Board for final adoption.

MOTION duly made and carried to accept the proposed administrative rule changes as presented:

Proposed by:	*Steven Miller*
Seconded by:	*Nancy Turner*
Votes:	*4 for, 0 against, 0 abstentions*

5. <u>POLICE AND FIRE.</u>

- <u>Line-of-Duty Death Determination.</u>

MOTION duly made and carried to approve a Line-of-Duty death determination in the case of Mr. Paul K. Jolliff, Indianapolis Fire Department, who was fatally injured in the line-of-duty as a result of a diving accident while involved in a training exercise.

Proposed by:	*Nancy Turner*
Seconded by:	*Richard Doermer*
Votes:	*4 for, 0 against, 0 abstentions*

6. BENEFITS

- Member Service Reporting. Mr. Scott provided an update as follows:

  - Incoming new member records. The current inventory is 631, which represents approximately one month of inventory.

  - Refunds processing. The level was maintained at a steady rate in terms of processing incoming members. Approximately 1,200 new applications were received and slightly more than 1,000 were processed.

  - Disability/Retirement Processing. Productivity had been adversely affected by implementation of SIRIS II, and this was further exacerbated by receipt of a significant number of new retiree applications. Production levels were now improving. Mr. Scott noted that eight members would receive an estimated benefit check that month; it was anticipated that this number would increase gradually. Mr. Birge considered that this was a real milestone for PERF. He stressed the importance of keeping a tally of the time it takes for those people to receive their final checks. Mr. Scott advised that regular process reports would be provided to the Board. Mr. Miller asked if this had been communicated to the major employers. Mr. Lane noted that this would be included in two newsletters to employers and employees to go out in August. The next newsletters would be published in November. It was noted that RIPEA was included in the newsletter distribution although Mr. Butler would contact them directly to inform them of the change of the Guaranteed Rate.

7. INVESTMENTS. Mr. Miller provided a summary of the Investments Committee Meeting held that morning.

a. J. P. Morgan Chase. A representative had been invited to the Investment Committee meeting to address PERF's concerns about their failure to deliver securities that were out on loan in connection with the liquidation of a Small Cap portfolio. Essentially, the concern of the Committee was that trades failed when PERF executed sale orders because the borrower did not deliver the security. PERF had received an assurance that J. P. Morgan would credit the account with the market value of the securities on trade date. This will continue to be monitored. Mr. Miller noted that the whole issue of securities lending was being reviewed.

b. PERF's Exposure to Enron, Worldcom, Tycos, Iquest, etc. PERF had suffered realized and unrealized market value losses to date of approximately $155.8 million on these securities. The largest single portion was for Worldcom ($56.4 million), which are mostly realized losses. It was noted that for Worldcom, $37 million was held in the S&P 500-index fund. A large proportion of the total losses ($107 million of $155 million) was related to index-type holdings. Mr. Miller noted that most other pension funds had held securities in these companies. They had been investment grade, high profile, and mainstream companies at the time when the securities were purchased.

c. Equity Manager Funding. The Investment Committee had also approved a funding plan for funding the newly hired equity manager and this will be completed in October 2002.

d. Consolidated Equity Indexing. Ms. Gerrick, Chief Investment Officer, advised that a study would be initiated concerning PERF's approach towards indexing, whereby all equity indexing could be consolidated with one manager. Currently, this is spread out between several financial index managers. It was considered that this approach gave rise to some inefficiency and there were some advantages to be gained by having all domestic and international indexing effected by one manager. A recommendation will be made to the Board in due course.

e. Mercer Report on Custodial Services. The study had compared PERF's existing custodian to a peer group of global and domestic custody banks with regard to various aspects of their service levels. As a result of the findings of the study, the Investment Committee had made a recommendation to the Board to employ Mercer to assist with a review of custodial services and to develop a Request for Proposal (RFP) for issue in early August. The results would subsequently be evaluated and a course of action would be recommended to the Board. It was noted that the RFP did not commit PERF to change, but provided an opportunity to evaluate the current situation with regard to custodial services.

MOTION was duly made and carried to retain Mercer to develop an RFP for custodial services.

Proposed by:	*Steven Miller*
Seconded by:	*Nancy Turner*
Votes:	*4 for, 0 against, 0 abstentions*

f. Alternative Investments Allocation. The Investment Committee had voted to commit $50 million to Lindsay Goldberg & Bessemer L.P., as PERF's first alternative investment. The Investment Committee had also reviewed the schedule for closing.

g. Central Indiana Life Style Initiative. This is a plan that is in the formation stages. It is a fund-of-funds that intends to bring together a group of Indiana-based institutional investors to channel investors through to Indiana-based ventures. The Board agreed to conditionally support the initiative until the structure of the investment vehicle was determined. Staff and Strategic Investment Solutions (SIS) will meet with other interested Limited Partners in August. A report on the activities of this group will be presented at the September Board meeting.

h. Alternative Investments. Various Trustees met with Indiana-based General Partners, July 10-12, 2002. Staff and SIS also participated in these meetings. Following additional due diligence, recommendations will be presented to the Board in September.

8. FINANCIAL. Copies of the Minutes of the Audit and Budget Committee meetings held on May 8, 2002, May 31, 2002 and June 14, 2002 had been provided. There was no new business to report.

9. NEW BUSINESS.

- Frequency of Board Meetings. Mr. Miller asked the Board to consider holding less frequent Board meetings (possibly every two months). He noted that PERF had a competent and professional staff on board, and the monthly meetings constituted a drain on staff time. Committee meetings could be held on a more frequent basis, as required and many could be scheduled as teleconferences. Mr. Birge considered that monthly Board meetings continued to be necessary given he current climate of change and innovations within PERF (particularly in the Investments field). This often involved short turnaround times when Board approval had to be expedited. Mr. Doermer noted the PERF was now fully invested in all asset classes, except for alternative investments. Once fully invested, this would require monitoring only and at that time the issue of reducing the frequency of Board meetings could be reviewed. Mr. Birge recommended continuing to review this and to see how the situation developed.

- Future Meetings. Due to a conflict of meetings, Mr. Doermer had proposed to move the Board meeting dates to the third Friday of each months instead of the second Friday, as currently scheduled. This will be coordinated with all Board members.

10. EXECUTIVE SESSION. The Board met in Executive Session under IC 5-14-1.5-6.1(b)(9) (personnel matters).

11. NEXT MEETING. The next meeting of the Board will be held on Friday, September 13, 2002, at 1:00 p.m.

12. ADJOURNMENT. There being no further business, the meeting was adjourned.

Jonathan Birge Chairman	E. William Butler Executive Director